

CITY OF PARCHMENT, MICHIGAN
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2008

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SEBER TAN , PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Members of the City Commission
City of Parchment, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2008, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2-7 and 36-38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Seber Tans, PLC
Kalamazoo, Michigan

November 24, 2008

City of Parchment, Michigan

Management's Discussion and Analysis

For the Year Ended June 30, 2008

This section of the City of Parchment's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the City's financial statements, which follow this section.

The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

Financial Highlights

The City's Total Net Assets are \$5,986,143.

During the year, the City's expenses were \$24,003 less than the \$1,544,432 generated in taxes, other revenues and other financing sources for governmental programs.

The City's General Fund fund balance at year end was \$890,466, which represents 41% of General Fund revenues.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the water and sewer funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

City of Parchment, Michigan Management's Discussion and Analysis For the Year Ended June 30, 2008

The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- The overall health of the City is affected by non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities - Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state grants finance most of these activities.
- Enterprise activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems are included here.
- Component units - The City includes one other entity in its report - the Downtown Development Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it. The Kindleberger Summer Festival has been accounted for in the General Fund this year and next year will be a component unit.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

The City has two kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

**City of Parchment, Michigan
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's Internal Services Fund.

Financial Analysis of the City as a Whole

Changes in Net assets

The City's combined net assets are \$5,986,143. In comparison, last year net assets were \$6,023,752, a decrease of \$37,609. Governmental activities increased net assets, with revenues exceeding expenses by \$54,684. Interest revenues, dividends and service fees came in higher than expected. Enterprise Fund net assets decreased by \$92,293, with expenses exceeding revenues, as explained in Enterprise Fund Activities.

| | Governmental Activities 2008 | Enterprise Fund Activities 2008 | Total |
|-----------------------------------|---|--|---------------------|
| Current and long term assets | \$ 4,599,023 | \$ 1,861,868 | \$ 6,460,891 |
| Current and long term liabilities | 441,587 | 33,161 | 474,748 |
| Total net assets | <u>\$ 4,157,436</u> | <u>\$ 1,828,707</u> | <u>\$ 5,986,143</u> |

| | Governmental Activities 2007 | Enterprise Fund Activities 2007 | Total |
|-----------------------------------|---|--|---------------------|
| Current and long term assets | \$ 4,278,620 | \$ 1,945,450 | \$ 6,224,070 |
| Current and long term liabilities | 175,868 | 24,450 | 200,318 |
| Total net assets | <u>\$ 4,102,752</u> | <u>\$ 1,921,000</u> | <u>\$ 6,023,752</u> |

Governmental Activities

Investment in infrastructure replacement has been deferred in recent years. Only minimal activities have been pursued relative to roadway improvements, City Hall maintenance, and Public Works and Public Safety vehicle replacement. In 2008-09 a more aggressive approach has been initiated to address such needs. The City's total governmental fund revenues excluding other financing sources were \$1,544,432 in 2007-08. Property taxes represented \$795,570, or 52% of the total revenues. The growth of property tax revenue is controlled by State law. Developed cities (like Parchment) are restricted in growth to amounts at or below the rate of inflation.

Growth in property tax revenue is further hampered by vacant publicly owned industrial property comprising more than 80 acres formerly owned by Crown Vantage Paper Company. Such property is now being aggressively redeveloped by the City Administration. State revenue sharing made up \$324,087 or 24% of the total revenue. The distribution of this revenue is controlled by State laws. The City did receive \$38,500 in grants and contributions for summer arts programs for the Stage at Kindleberger. The remaining governmental fund revenues are comprised mostly of Charges for Services and Interest revenue.

City of Parchment, Michigan
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Enterprise Fund Activities

Operating revenues of the City's utilities increased from the prior year of \$475,792 to the current year total of \$481,887. Operating expenses increased from \$539,033 to \$598,559. The sewer fund had a \$38,451 decrease in net assets, with an unexpected increase in charges from the City of Kalamazoo for sewer treatment and higher than anticipated labor charges. The water fund had a decrease in net assets of \$53,842. Increased costs in electric, gasoline and chemicals contributed to this decrease. A rate increase has been budgeted for the water fund next year to react to these cost increases and in anticipation of water tower painting.

Government Wide Statement of Activities

| | Governmental Activities | Enterprise Fund Activities | Total |
|------------------------------------|------------------------------------|---|--------------------|
| Revenue | | | |
| Program revenue | | | |
| Charges for services | \$ 110,628 | \$ 481,887 | \$ 592,515 |
| Operating grants and contributions | 53,980 | --- | 53,980 |
| Capital grants and contributions | 60,933 | --- | 60,933 |
| General revenue: | | | |
| Property taxes | 795,570 | --- | 795,570 |
| State-shared revenue | 324,087 | --- | 324,087 |
| Investment income | 71,067 | 16,364 | 87,431 |
| Licenses and permits | 22,324 | --- | 22,324 |
| Fines and forfeitures | 9,634 | --- | 9,634 |
| Special assessment interest income | --- | 565 | 565 |
| Miscellaneous | 97,219 | 7,450 | 104,669 |
| Total revenue | <u>1,545,442</u> | <u>506,266</u> | <u>2,051,708</u> |
| Program expenses | | | |
| General government | 264,793 | --- | 264,793 |
| Public safety | 375,582 | --- | 375,582 |
| Public works | 415,282 | --- | 415,282 |
| Recreation and culture | 102,379 | --- | 102,379 |
| Interest on long term debt | 2,303 | --- | 2,303 |
| Water and sewer | --- | 598,559 | 598,559 |
| Depreciation | 104,878 | --- | 104,878 |
| Total program expenses | <u>1,265,217</u> | <u>598,559</u> | <u>1,863,776</u> |
| Change in net assets | <u>\$ 54,684</u> | <u>\$ (92,293)</u> | <u>\$ (37,609)</u> |

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,255,017, an increase of \$24,003.

The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City of Parchment as a whole. The City Commission created funds to help manage money for specific purposes as well as show accountability for certain activities, such as the State of Michigan Act 51, Major and Local

City of Parchment, Michigan

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Street funds. The City of Parchment governmental major funds include the General Fund and the Major and Local Street Funds.

- **General Fund**

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, from fees charged for various municipal activities and services are recorded in the General Fund. This fund had a fund balance increase of \$20,304 over 2007.

- **Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these for improvements to the city street system, along with contributions from the General Fund. Major Streets had an increase in fund balance of \$24,893 and Local Streets had a decrease of \$21,194.

General Fund Budgetary Highlights

The budget for 2007-2008 was passed on June 4, 2007. The General Fund as a whole did not go over budget, and there was an increase in fund balance for the General Fund. During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

| Fund | Budget Item | Budget Appropriation | Actual Expenditure | Unfavorable Variance |
|--------------|------------------------|-------------------------|-----------------------|-------------------------|
| General | Public Works | \$ 267,560 | \$ 287,546 | \$ (19,986) |
| General | Recreation and Culture | 74,173 | 175,673 | (101,500) |
| General | Capital Outlay | 14,188 | 70,137 | (55,949) |
| General | Debt Service | 35,100 | 38,567 | (3,467) |
| Major Street | Traffic Services | 7,606 | 12,687 | (5,081) |
| Major Street | Winter Maintenance | 16,993 | 32,276 | (15,283) |
| Local Street | Routine Maintenance | 42,501 | 44,137 | (1,636) |
| Local Street | Traffic Services | 3,426 | 4,390 | (964) |
| Local Street | Winter Maintenance | 15,913 | 32,252 | (16,339) |
| Local Street | Administration | 3,025 | 3,303 | (278) |

Capital Assets

At the end of 2008, the City had invested \$4,037,002 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years. This year's major capital improvements included the following:

- Repaving of Glenguille Street.....\$ 31,543

City of Parchment, Michigan Management's Discussion and Analysis For the Year Ended June 30, 2008

Long-term Debt

At year-end the City had \$560,000 in bonds and notes outstanding for the Downtown Development Authority and \$34,174 in a note for Fire Engine 711. The bonds will be retired in 2011 and the final payment on the Fire Truck Loan will be in June of 2009. The City will be debt free in April, 2011.

Limitations on Debt

The State limits the amount of general obligation debt the City can issue to 7% of the assessed value of all taxable property within the City's corporate limits. The City's legal debt limit is \$3,888,462. The City has an available unused portion of \$3,291,297.

Bond Ratings

Standard and Poor's Investors Service, has given the City of Parchment a BBB bond rating, recognizing the affect of the Crown Paper Company bankruptcy and closing.

Economic Factors and Next Year's Budgets and Rates

The inflation rate for use in the 2008 capped value formula, and the 2008 "Headlee" millage reduction fraction formula was 2.3%. The capped value and the Headlee millage reduction are key elements in determining property tax revenues. Property values have been impacted by the decline in the housing market. While property values have declined, taxable values have still increased by the rate of inflation. It will take several years of decline for the taxable values to be affected. The SEV of the City for 2007-08 was \$55,033,638 and the Taxable Value was \$48,030,252 a difference of \$7,003,386.

The City has again produced a timely budget for fiscal year 2008. Total appropriations in the General fund 2008 budget are \$2,185,506, an increase of \$783,413 over the final 2007 budget of \$1,402,093. This also represents an \$851,990 use of Fund Balance. These funds are being appropriated to enable the City to participate in economic development activities should they become available.

Future Development

The City of Parchment is pursuing redevelopment of the former Crown Vantage property currently owned by the City. The property is a Brownfield site and is approximately 85 acres in size and includes approximately 18 buildings and a wastewater treatment plant. It is expected that TIF revenue generated from such a development will be used to support the project.

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Parchment, 650 S Riverview Drive, Parchment, MI 49004.

City of Parchment, Michigan
Government-Wide Financial Statements
Statement of Net Assets
June 30, 2008

| | Primary Government | | | |
|---|---------------------------------|---------------------------------|---------------------|-------------------|
| | Govern- mental Activities | Business- Type Activities | Total | Component Unit |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 192,644 | \$ 34,357 | \$ 227,001 | \$ 15,982 |
| Investments | 1,248,230 | 282,057 | 1,530,287 | 132,491 |
| Receivables | 111,548 | 128,460 | 240,008 | 3,403 |
| Inventory | 2,907 | 16,491 | 19,398 | - |
| Prepaid expenses | 17,207 | 4,770 | 21,977 | - |
| Due from State | 20,360 | - | 20,360 | - |
| Due from others | 3,154 | - | 3,154 | - |
| Due from school district | 317,100 | - | 317,100 | - |
| Noncurrent assets | | | | |
| Receivable in one year | - | 930 | 930 | - |
| Receivable in more than one year | - | 9,500 | 9,500 | - |
| Capital assets - net of accumulated depreciation | 2,685,873 | 1,385,303 | 4,071,176 | 3,324 |
| Total Assets | \$ 4,599,023 | \$ 1,861,868 | \$ 6,460,891 | \$ 155,200 |
| LIABILITIES AND NET ASSETS (DEFICIT) | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 16,246 | \$ 31,206 | \$ 47,452 | \$ - |
| Accrued and other liabilities | 15,723 | 1,955 | 17,678 | 7,858 |
| Due to others | 885 | - | 885 | - |
| Due to State | 317,100 | - | 317,100 | - |
| Noncurrent liabilities | | | | |
| Due within one year | 34,174 | - | 34,174 | 155,000 |
| Due in more than one year | 57,459 | - | 57,459 | 405,000 |
| Total Liabilities | 441,587 | 33,161 | 474,748 | 567,858 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 2,651,699 | 1,385,303 | 4,037,002 | 3,324 |
| Restricted for streets | 364,551 | - | 364,551 | - |
| Restricted for Kindleberger Festival | 42,906 | - | 42,906 | - |
| Unrestricted | 1,098,280 | 443,404 | 1,541,684 | (415,982) |
| Total Net Assets (Deficit) | 4,157,436 | 1,828,707 | 5,986,143 | (412,658) |
| Total Liabilities and Net Assets (Deficit) | \$ 4,599,023 | \$ 1,861,868 | \$ 6,460,891 | \$ 155,200 |

See Notes to Financial Statements

City of Parchment, Michigan
Government-Wide Financial Statements
Statement of Activities
June 30, 2008

| Functions/Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units |
|--|----------------------------|--------------------------|------------------------------------|----------------------------------|---|----------------------------|----------------------------|----------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Totals | |
| Primary government | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 346,831 | \$ 82,038 | \$ - | \$ - | \$ (264,793) | \$ - | \$ (264,793) | \$ - |
| Public safety | 443,378 | 6,863 | - | 60,933 | (375,582) | - | (375,582) | - |
| Public works | 415,282 | - | - | - | (415,282) | - | (415,282) | - |
| Recreation and culture | 178,086 | 21,727 | 53,980 | - | (102,379) | - | (102,379) | - |
| Interest on long-term debt | 2,303 | - | - | - | (2,303) | - | (2,303) | - |
| Depreciation (unallocated) | 104,878 | - | - | - | (104,878) | - | (104,878) | - |
| Total Governmental Activities | <u>1,490,758</u> | <u>110,628</u> | <u>53,980</u> | <u>60,933</u> | <u>(1,265,217)</u> | <u>-</u> | <u>(1,265,217)</u> | <u>-</u> |
| Business-type activities | | | | | | | | |
| Sewer | 270,561 | 224,758 | - | - | - | (45,803) | (45,803) | - |
| Water | 327,998 | 257,129 | - | - | - | (70,869) | (70,869) | - |
| Total Business-type activities | <u>598,559</u> | <u>481,887</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(116,672)</u> | <u>(116,672)</u> | <u>-</u> |
| Total Government | <u>\$ 2,089,317</u> | <u>\$ 592,515</u> | <u>\$ 53,980</u> | <u>\$ 60,933</u> | <u>(1,265,217)</u> | <u>(116,672)</u> | <u>(1,381,889)</u> | <u>-</u> |
| Component Unit | | | | | | | | |
| Downtown Development Authority | <u>\$ (38,983)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(38,983)</u> |
| GENERAL REVENUES | | | | | | | | |
| Property taxes | | | | | 795,570 | - | 795,570 | 204,211 |
| State shared revenue | | | | | 324,087 | - | 324,087 | - |
| Investment income | | | | | 71,067 | 16,364 | 87,431 | 5,565 |
| Licenses and permits | | | | | 22,324 | - | 22,324 | - |
| Fines and forfeitures | | | | | 9,634 | - | 9,634 | - |
| Special assessment interest income | | | | | - | 565 | 565 | - |
| Miscellaneous | | | | | 97,219 | 7,450 | 104,669 | - |
| Total General Revenue | | | | | <u>1,319,901</u> | <u>24,379</u> | <u>1,344,280</u> | <u>209,776</u> |
| Increase (Decrease) in net assets | | | | | 54,684 | (92,293) | (37,609) | 170,793 |
| Net assets (deficit) at beginning of year | | | | | <u>4,102,752</u> | <u>1,921,000</u> | <u>6,023,752</u> | <u>(583,451)</u> |
| Net Assets (Deficit) at the End of the Year | | | | | <u>\$ 4,157,436</u> | <u>\$ 1,828,707</u> | <u>\$ 5,986,143</u> | <u>\$ (412,658)</u> |

See Notes to Financial Statements

City of Parchment, Michigan
Balance Sheet - Governmental Funds
June 30, 2008

| | General | Major Street | Local Street | Total Govern- mental |
|--|---------------------|-------------------------|-------------------------|-------------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 134,335 | \$ 32,919 | \$ 811 | \$ 168,065 |
| Investments | 691,171 | 293,186 | 17,870 | 1,002,227 |
| Receivables | | | | |
| Trade | 1,972 | - | - | 1,972 |
| Taxes | 28,415 | - | - | 28,415 |
| Trash and recycling | 20,235 | - | - | 20,235 |
| State shared revenue | 24,900 | - | - | 24,900 |
| Prepaid expenses | 17,207 | - | - | 17,207 |
| Due from others | 3,154 | - | - | 3,154 |
| Due from State | - | 14,541 | 5,819 | 20,360 |
| Due from school district | 317,100 | - | - | 317,100 |
| Total Assets | \$ 1,238,489 | \$ 340,646 | \$ 24,500 | \$ 1,603,635 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 14,675 | \$ 473 | \$ - | \$ 15,148 |
| Accrued wages | 13,632 | 20 | 99 | 13,751 |
| Accrued payroll taxes | 1,731 | 3 | - | 1,734 |
| Due to others | 885 | - | - | 885 |
| Due to State | 317,100 | - | - | 317,100 |
| Total Liabilities | 348,023 | 496 | 99 | 348,618 |
| Fund Balances | | | | |
| Reserved for disaster | 500 | - | - | 500 |
| Reserved for sight development | 159,500 | - | - | 159,500 |
| Reserved for streets | - | 340,150 | 24,401 | 364,551 |
| Unreserved | 730,466 | - | - | 730,466 |
| Total Fund Balances | 890,466 | 340,150 | 24,401 | 1,255,017 |
| Total Liabilities and Fund Balances | \$ 1,238,489 | \$ 340,646 | \$ 24,500 | \$ 1,603,635 |

See Notes to Financial Statements

City of Parchment, Michigan
Reconciliation of the Balance Sheet to the Statement of Net
Assets - Governmental Funds
June 30, 2008

| | | |
|----------------------------------|--|--------------|
| Total governmental fund balances | | \$ 1,255,017 |
|----------------------------------|--|--------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds:

| | | |
|-----------------------------------|--------------------|-----------|
| The cost of the capital assets is | 3,700,254 | |
| Accumulated depreciation is | <u>(1,098,556)</u> | 2,601,698 |

Other assets are not available to pay for current year expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:

| | | |
|----------------------|--|--------|
| State shared revenue | | 36,026 |
|----------------------|--|--------|

Long term liabilities that are not due and payable in the current period are not reported in the funds:

| | | |
|------------------------------|-----------------|----------|
| Compensated absences payable | (57,459) | |
| Note payable | <u>(34,174)</u> | (91,633) |

Internal service funds are used by management to charge the cost of equipment to individual funds:

| | | |
|---|--|----------------|
| Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets | | <u>356,328</u> |
|---|--|----------------|

| | | |
|--|--|-----------------------------------|
| Net Assets of Governmental Activities | | <u><u>\$ 4,157,436</u></u> |
|--|--|-----------------------------------|

City of Parchment, Michigan
Statement of Revenues, Expenditures, and Changes in Fund
Balances - Governmental Funds
For the Year Ended June 30, 2008

| | General | Major Street | Local Street | Total Govern- mental |
|--|--------------------------|--------------------------|-------------------------|-------------------------------------|
| REVENUES | | | | |
| Taxes | \$ 795,570 | \$ - | \$ - | \$ 795,570 |
| License and permits | 22,324 | - | - | 22,324 |
| Contributions | 15,480 | - | - | 15,480 |
| Federal grants | 60,933 | - | - | 60,933 |
| State grants | 197,051 | 89,501 | 36,525 | 323,077 |
| Private grants | 38,500 | - | - | 38,500 |
| Charges for services | 110,628 | - | - | 110,628 |
| Fines and forfeitures | 9,634 | - | - | 9,634 |
| Investment income | 56,957 | 12,943 | 1,167 | 71,067 |
| Other revenue | 97,219 | - | - | 97,219 |
| Total Revenues | <u>1,404,296</u> | <u>102,444</u> | <u>37,692</u> | <u>1,544,432</u> |
| EXPENDITURES | | | | |
| General government | \$ 368,691 | \$ - | \$ - | \$ 368,691 |
| Public safety | 443,378 | - | - | 443,378 |
| Public works | 287,546 | 52,355 | 84,082 | 423,983 |
| Recreation and culture | 175,673 | - | - | 175,673 |
| Capital outlay | 70,137 | - | - | 70,137 |
| Debt service | 38,567 | - | - | 38,567 |
| Total Expenditures | <u>1,383,992</u> | <u>52,355</u> | <u>84,082</u> | <u>1,520,429</u> |
| Excess (Deficiency) of Revenues over Expenditures | 20,304 | 50,089 | (46,390) | 24,003 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 25,196 | 25,196 |
| Transfers out | - | (25,196) | - | (25,196) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(25,196)</u> | <u>25,196</u> | <u>-</u> |
| Net Changes in Fund Balances | 20,304 | 24,893 | (21,194) | 24,003 |
| Fund balances at beginning of year | <u>870,162</u> | <u>315,257</u> | <u>45,595</u> | <u>1,231,014</u> |
| Fund Balances at End of Year | <u>\$ 890,466</u> | <u>\$ 340,150</u> | <u>\$ 24,401</u> | <u>\$ 1,255,017</u> |

See Notes to Financial Statements

City of Parchment, Michigan
Reconciliation of the Statement of Revenues, Expenditures and Changes In
Fund Balances to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2008

Net change in fund balance - total governmental funds \$ 24,003

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives:

| | | |
|----------------------|----------------|---------|
| Depreciation expense | (104,878) | |
| Capital outlay | <u>101,680</u> | (3,198) |

Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable):

| | | |
|---------------|---------------|--------|
| Lease payable | 3,499 | |
| Note payable | <u>32,765</u> | 36,264 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

| | | |
|--------------------------------|--|--------|
| Change in compensated absences | | 21,860 |
|--------------------------------|--|--------|

Assets are not available to pay for current period expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:

| | | |
|---|--|-------|
| Change in state shared revenue receivable | | 1,010 |
|---|--|-------|

Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities

| | |
|--|-----------------|
| | <u>(25,255)</u> |
|--|-----------------|

Change In Net Assets of Governmental Activities

| |
|------------------|
| \$ 54,684 |
|------------------|

City of Parchment, Michigan
Statement of Net Assets - Proprietary Funds
June 30, 2008

| | Business-Type Activities - Enterprise Funds | | | Internal Service Funds |
|---|--|----------------------------|----------------------------|---------------------------------------|
| | Sewer | Water | Total | |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 15,093 | \$ 19,264 | \$ 34,357 | \$ 24,579 |
| Investments | 117,503 | 164,554 | 282,057 | 246,003 |
| Inventory | - | 16,491 | 16,491 | 2,907 |
| Accounts receivable | 62,036 | 65,859 | 127,895 | - |
| Special assessment receivable, short-term | 930 | - | 930 | - |
| Prepaid expenses | 1,385 | 3,385 | 4,770 | - |
| Interest receivable | 565 | - | 565 | - |
| Total Current Assets | <u>197,512</u> | <u>269,553</u> | <u>467,065</u> | <u>273,489</u> |
| Noncurrent Assets | | | | |
| Special assessment receivable, long-term | 9,500 | - | 9,500 | - |
| Property and Equipment | | | | |
| Sewer system | 1,153,671 | - | 1,153,671 | - |
| Water system | - | 2,004,750 | 2,004,750 | - |
| Equipment - internal service | - | - | - | 320,730 |
| | <u>1,153,671</u> | <u>2,004,750</u> | <u>3,158,421</u> | <u>320,730</u> |
| Less Accumulated Depreciation | <u>(518,933)</u> | <u>(1,254,185)</u> | <u>(1,773,118)</u> | <u>(236,555)</u> |
| Net Property and Equipment | <u>634,738</u> | <u>750,565</u> | <u>1,385,303</u> | <u>84,175</u> |
| Total Noncurrent Assets | <u>644,238</u> | <u>750,565</u> | <u>1,394,803</u> | <u>84,175</u> |
| Total Assets | <u>\$ 841,750</u> | <u>\$ 1,020,118</u> | <u>\$ 1,861,868</u> | <u>\$ 357,664</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 20,141 | \$ 11,065 | \$ 31,206 | \$ 1,098 |
| Accrued wages | 894 | 1,061 | 1,955 | 238 |
| Total Current Liabilities | <u>21,035</u> | <u>12,126</u> | <u>33,161</u> | <u>1,336</u> |
| Net Assets | | | | |
| Invested in capital assets | 634,738 | 750,565 | 1,385,303 | 84,175 |
| Unrestricted | <u>185,977</u> | <u>257,427</u> | <u>443,404</u> | <u>272,153</u> |
| Total Net Assets | <u>820,715</u> | <u>1,007,992</u> | <u>1,828,707</u> | <u>356,328</u> |
| Total Liabilities and Net Assets | <u>\$ 841,750</u> | <u>\$ 1,020,118</u> | <u>\$ 1,861,868</u> | <u>\$ 357,664</u> |

See Notes to Financial Statements

City of Parchment, Michigan
Statement of Revenues, Expenditures, and Changes in Net
Assets - Proprietary Funds
For the Year Ended June 30, 2008

| | Business-Type Activities - Enterprise Funds | | | Internal Service Fund |
|---|--|----------------|----------------|--------------------------------------|
| | Sewer | Water | Total | |
| Operating Revenues: | | | | |
| Charges for services | \$ 219,752 | \$ - | \$ 219,752 | \$ - |
| Water sales and installation | - | 251,901 | 251,901 | - |
| Penalties | 5,006 | 5,228 | 10,234 | - |
| Equipment rental | - | - | - | 51,568 |
| Total Operating Revenues | <u>224,758</u> | <u>257,129</u> | <u>481,887</u> | <u>51,568</u> |
| Operating Expenses: | | | | |
| Salaries and wages | 41,106 | 65,135 | 106,241 | 18,284 |
| Social security | 2,583 | 4,080 | 6,663 | 1,141 |
| Hospital and life insurance | 17,253 | 28,379 | 45,632 | 8,488 |
| Pension | 2,611 | 4,111 | 6,722 | 1,168 |
| Worker's compensation | 865 | 1,382 | 2,247 | 569 |
| Medicare | 604 | 954 | 1,558 | 267 |
| Safety supplies | - | 58 | 58 | - |
| Operating supplies | 77 | 300 | 377 | - |
| Postage | 1,000 | 1,018 | 2,018 | - |
| Chemicals | - | 7,756 | 7,756 | - |
| Gasoline and oil | - | 7,377 | 7,377 | 11,899 |
| Repair and maintenance - supplies | 279 | 12,890 | 13,169 | 11,177 |
| Professional/contractual services | 4,291 | 17,045 | 21,336 | - |
| Sewer treatment charges | 113,956 | - | 113,956 | - |
| Uniform rental | - | 154 | 154 | - |
| Membership and dues | - | 475 | 475 | - |
| Communications | 748 | 2,795 | 3,543 | - |
| Computer services | 1,124 | 1,124 | 2,248 | - |
| Institutes and training | - | 240 | 240 | - |
| Insurance and bonds | 3,705 | 3,705 | 7,410 | 8,276 |
| Utilities | 904 | 48,703 | 49,607 | - |
| Repair and maintenance - contractors | 23,823 | 27,306 | 51,129 | 7,199 |
| Repair and maintenance - vehicles | - | 2,119 | 2,119 | - |
| Rentals | 584 | 1,007 | 1,591 | - |
| Administrative overhead | 30,000 | 30,000 | 60,000 | 1,500 |
| Depreciation | <u>25,048</u> | <u>59,885</u> | <u>84,933</u> | <u>18,310</u> |
| Total Operating Expenses | <u>270,561</u> | <u>327,998</u> | <u>598,559</u> | <u>88,278</u> |
| Operating Loss | (45,803) | (70,869) | (116,672) | (36,710) |

See Notes to Financial Statements

City of Parchment, Michigan
Statement of Revenues, Expenditures, and Changes in Net
Assets - Proprietary Funds (Continued)
For the Year Ended June 30, 2008

| | <u>Business-Type Activities - Enterprise Funds</u> | | | <u>Internal Service Fund</u> |
|---------------------------------------|--|----------------------------|----------------------------|--------------------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> | |
| Non-operating Revenues: | | | | |
| Investment income | \$ 6,787 | \$ 9,577 | \$ 16,364 | \$ 10,443 |
| Miscellaneous | - | 7,450 | 7,450 | 1,012 |
| Special assessment interest income | 565 | - | 565 | - |
| Total Non-operating Revenues | <u>7,352</u> | <u>17,027</u> | <u>24,379</u> | <u>11,455</u> |
| Change in Net Assets | (38,451) | (53,842) | (92,293) | (25,255) |
| Net assets at beginning of year | <u>859,166</u> | <u>1,061,834</u> | <u>1,921,000</u> | <u>381,583</u> |
| Net Assets at End of Year | <u>\$ 820,715</u> | <u>\$ 1,007,992</u> | <u>\$ 1,828,707</u> | <u>\$ 356,328</u> |

See Notes to Financial Statements

City of Parchment, Michigan
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2008

| | <u>Business-Type Activities - Enterprise Funds</u> | | | <u>Internal Service Funds</u> |
|--|--|------------------|------------------|---------------------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> | |
| CASH FLOWS FROM | | | | |
| OPERATING ACTIVITIES: | | | | |
| Receipts from customers | \$ 228,249 | \$ 256,275 | \$ 484,524 | \$ 51,568 |
| Payments to suppliers | (143,576) | (134,576) | (278,152) | (39,280) |
| Payments to employees | (64,869) | (103,842) | (168,711) | (29,811) |
| Internal activity - payments to other funds | (30,584) | (31,007) | (61,591) | (1,500) |
| Net Cash Used in Operating Activities | (10,780) | (13,150) | (23,930) | (19,023) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Receipts from special assessment | 882 | - | 882 | - |
| Purchase of equipment | - | (8,050) | (8,050) | (6,959) |
| Other | - | 7,450 | 7,450 | 1,012 |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | 882 | (600) | 282 | (5,947) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Sale of investments | 6,005 | 7,068 | 13,073 | 14,685 |
| Receipt of interest | 8,414 | 10,844 | 19,258 | 12,211 |
| Net Cash Provided by Investing Activities | 14,419 | 17,912 | 32,331 | 26,896 |
| Net Increase in Cash and Cash Equivalents | 4,521 | 4,162 | 8,683 | 1,926 |
| Cash and cash equivalents at beginning of year | 10,572 | 15,102 | 25,674 | 22,653 |
| Cash and Cash Equivalents at End of Year | \$ 15,093 | \$ 19,264 | \$ 34,357 | \$ 24,579 |

See Notes to Financial Statements

City of Parchment, Michigan
Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2008

| | <u>Business-Type Activities - Enterprise Funds</u> | | | <u>Internal Service Fund</u> |
|--|--|---------------------------|---------------------------|--------------------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> | |
| CASH FLOWS FROM | | | | |
| OPERATING ACTIVITIES: | | | | |
| Operating loss | \$ (45,803) | \$ (70,869) | \$ (116,672) | \$ (36,710) |
| Adjustments to reconcile operating loss to cash provided by operating activities | | | | |
| Depreciation | 25,048 | 59,885 | 84,933 | 18,310 |
| Decrease (increase) in: | | | | |
| Accounts receivable | 3,491 | (854) | 2,637 | - |
| Prepaid expenses | (353) | (2,353) | (2,706) | - |
| Inventory | - | (832) | (832) | (1,194) |
| Increase in: | | | | |
| Accounts payable | 6,684 | 1,674 | 8,358 | 465 |
| Internal funds payable | - | - | - | - |
| Accrued liabilities | 153 | 199 | 352 | 106 |
| Net Cash | | | | |
| Used in Operating Activities | <u>\$ (10,780)</u> | <u>\$ (13,150)</u> | <u>\$ (23,930)</u> | <u>\$ (19,023)</u> |

See Notes to Financial Statements

City of Parchment, Michigan
Statement of Fiduciary Assets and Liabilities
June 30, 2008

| | Tax Collection Fund | Payroll Fund |
|---------------------------------|------------------------------------|---------------------|
| ASSETS | | |
| Cash | \$ - | \$ 909 |
| Due from others | 2,743 | - |
| Total Assets | \$ 2,743 | \$ 909 |
| LIABILITIES | | |
| Check in excess of cash balance | \$ 911 | \$ - |
| Due to others | 1,832 | 909 |
| Total Liabilities | \$ 2,743 | \$ 909 |

See Notes to Financial Statements

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A – Summary of Significant Accounting Policies

The accounting policies of the City of Parchment, Michigan (the City) are in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City was incorporated in 1939 and is located in Kalamazoo County, Michigan. The City is governed by a seven member City Commission, elected by the community at large. This legislative body selects, from among its members, the Mayor, and appoints a City Manager to administer the affairs of the City. The City provides the following services to its residents as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The individual component unit discussed below is included in the City's reporting entity because of its financial relationship with the City.

Discretely Presented Component Unit

The following component unit is reported within the "component unit" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable.

Downtown Development Authority (DDA)

The members of the governing board are appointed by the City Commission. The Authority's budget is subject to approval by the City Commission. The DDA does not issue any other form of financial statements except as contained in the City of Parchment annual financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fund Based Statements

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the City reports the following major proprietary funds:

The Water Fund accounts for the costs of providing water services to City residents.

The Sewer Fund accounts for the cost of collection and treating waste waters.

Additionally, the City reports the following other funds:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

The Fiduciary Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non operating items. Operating revenue and expenses generally result from providing water and sewer services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water sales and services, sewage disposal, park and harbor fees and charges. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure are recognized as non operating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non operating revenue and expenses.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

City property taxes are assessed as of December 31 and attached as an enforceable lien on property as of July 1 of the following year and are due without penalty on or before August 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the Parchment school district, the intermediate school district, and Kalamazoo Valley Community College. Real property taxes not collected, but deemed collectable, as of March 1, are turned over to Kalamazoo County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. The City acts as a collection agent for Kalamazoo County and the Parchment Community Library for winter property taxes.

The City collects a 1% property tax administration fee.

The 2007 taxable valuation of the city was \$48,029,252 on which ad valorem taxes levy consisted of 16.6772 mills for operating purposes. This resulted in \$772,073 for operating expenses, after DDA capture exclusive of any Michigan Tax Tribunal or Board of Review adjustments. This amount is recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash and investments are maintained in an investment pool. Accounting records for the pool are maintained on a fund basis. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool. Investments are stated at fair value (quoted market price or the best available estimate).

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Real property taxes are considered delinquent on August 15th, at which time penalties and interest are assessed. Real property taxes not collected, are turned over to Kalamazoo County for collection as of March 1st of the following year. Kalamazoo County advances the City 100% for the delinquent taxes as the County maintains a revolving tax fund to finance delinquent real property taxes for local units.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Costs

Inventories consist primarily of supplies in the proprietary funds. Inventories are recognized as an asset in the proprietary fund types. Inventory is valued at the lower of cost (first in, first out) or market.

Inventories in the governmental fund types are insignificant and are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|------------------------------------|-----------------|
| Building and building improvements | 50 to 60 years |
| Utility systems | 25 to 100 years |
| Roads | 20 years |
| Other Infrastructure | 15 to 25 years |
| Vehicles | 5 to 20 years |
| Heavy duty equipment | 20 to 40 years |
| Machinery and equipment | 5 to 25 years |

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in applicable governmental activities, business type activities, or proprietary fund type statement of net assets.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Contributed capital is recorded in proprietary funds for capital grants or contributions from customers or other funds.

Comparative Data/Reclassifications

Comparative data is not included in the City's financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE B – Stewardship, Compliance, and Accountability

Fund Deficit

The City has accumulated a net assets deficit in the Downtown Development Authority (DDA) Fund. The deficit is a result of bonds that were issued in 1997. The proceeds of these bonds were used to purchase infrastructure assets. As allowed by GASB 34, the City has chosen to capitalize infrastructure assets prospectively, and to not go back and capitalize infrastructure assets from prior periods.

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 1st, the budget is legally adopted by the City Commission.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE B – Stewardship, Compliance, and Accountability (Continued)

4. The City Manager is authorized to transfer up to \$5,000 from any function of the budget to any other function of the budget within the same fund without further approval.
5. At the beginning of each quarter during the fiscal year, and more often if required by the City Commission, the City Manager shall submit to the Commission data showing the relation between the estimated and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the Commission may reduce appropriations, except any amounts required for debt and interest charges, to such degree as may be necessary to keep expenditures within income and designated reserves. If the revenues exceed the amounts estimated in the budget, the Commission may make supplemental appropriations.
6. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted or amended by the City Commission.

The Uniform Budgeting and Accounting Act, as amended, provide that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The City's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted on the line item level.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

| Fund | Budget Item | Budget Appropriation | Actual Expenditure | Variance |
|--------------|------------------------|-------------------------|-----------------------|-------------|
| General | Public Works | \$ 267,560 | \$ 287,546 | \$ (19,986) |
| General | Recreation and Culture | 74,173 | 175,673 | (101,500) |
| General | Capital Outlay | 14,188 | 70,137 | (55,949) |
| General | Debt Service | 35,100 | 38,567 | (3,467) |
| Major Street | Traffic Services | 7,606 | 12,687 | (5,081) |
| Major Street | Winter Maintenance | 16,993 | 32,276 | (15,283) |
| Local Street | Routine Maintenance | 42,501 | 44,137 | (1,636) |
| Local Street | Traffic Services | 3,426 | 4,390 | (964) |
| Local Street | Winter Maintenance | 15,913 | 32,252 | (16,339) |
| Local Street | Administration | 3,025 | 3,303 | (278) |

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE C – Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

| | |
|----------------------------|-----------------------|
| Statement of Net Assets: | Primary Government |
| Cash | \$ 242,983 |
| Investments | 1,662,778 |
| Total Cash and Investments | <u>\$ 1,905,761</u> |

Cash and investments as of June 30, 2008 consist of the following:

| | |
|----------------------------|---------------------|
| Statement of Net Assets: | |
| Bank deposits | \$ 242,683 |
| Cash on hand | 300 |
| Investments | 1,662,778 |
| Total Cash and Investments | <u>\$ 1,905,761</u> |

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Commission has authorized all of the investments allowable under Michigan law. City's deposits and investment policy are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE C – Cash and Investments (Continued)

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

| Investment Type | | Remaining Maturity (in Months) | | | |
|---------------------------|---------------------|--------------------------------|--------------------|--------------------|------------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | 60 Months or longer |
| Certificates of Deposit | \$ 1,067,807 | \$ 300,219 | \$ 493,401 | \$ 201,325 | \$ 72,862 |
| Federal Agency Securities | 594,971 | -- | -- | 222,256 | 372,715 |
| Total | <u>\$ 1,662,778</u> | <u>\$ 300,219</u> | <u>\$ 493,401</u> | <u>\$ 423,581</u> | <u>\$ 445,577</u> |

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating for each investment type.

| Investment | Fair Value | Rating | Rating Organization |
|---------------------------|------------|--------|---------------------|
| Federal Agency Securities | \$ 594,971 | Aaa | Moody's |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single user. The investment policy of the City contains that the investments shall be diversified by the specific maturity dates, individual financial institutions or a specific class of securities in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments in any one issuer that represent 5% or more of total city investments are as follows:

| Issuer | Investment Type | Reported Amount |
|-----------------------------|-------------------------|-----------------|
| Bank of Holland | Certificate of Deposit | \$ 100,139 |
| Mercantile Bank | Certificate of Deposit | 294,297 |
| Community Shores Bank | Certificate of Deposit | 100,893 |
| Huntington National Bank | Certificate of Deposit | 100,000 |
| Byron Bank of Michigan | Certificate of Deposit | 98,211 |
| Flagstar Bank | Certificate of Deposit | 101,208 |
| Citizens First Savings Bank | Certificate of Deposit | 172,979 |
| Standard Federal Bank | Certificate of Deposit | 100,080 |
| FNMA | Federal Agency Security | 197,751 |
| FHLMC | Federal Agency Security | 299,299 |
| FHLBB | Federal Agency Security | 97,921 |

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE C – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year end, the City had \$18,070 of bank deposits that were uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The City had an uninsured balance of \$267,276 relating to certificate of deposits, and no custodial credit risk relating to securities, because all securities are registered, and are held by brokerage firms in the City's name. As of June 30, 2008, City investments in the following investment types were held by four broker-dealers (counterparties) that were used by the City to buy the securities:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>How Held</u> |
|---------------------------|-----------------------|-----------------|
| Certificate of deposit | \$ 1,067,807 | Counterparty |
| Federal agency securities | 594,971 | Counterparty |

Foreign Currency Risk

The City is not authorized to participate in investments that have this type of risk.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE D – Capital Assets

Capital asset activity of the City's governmental activities was as follows:

| | July 1, 2007 | Additions | Disposals | June 30, 2008 |
|---|---------------------|--------------------|---------------|---------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 1,303,688 | \$ --- | \$ --- | \$ 1,303,688 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 663,397 | --- | --- | 663,397 |
| Machinery and equipment | 1,440,782 | 77,096 | --- | 1,517,878 |
| Infrastructure | 504,478 | 31,543 | --- | 536,021 |
| | <u>2,608,657</u> | <u>108,639</u> | <u>---</u> | <u>2,717,296</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 190,111 | 11,739 | --- | 201,850 |
| Machinery and equipment | 956,007 | 88,050 | --- | 1,044,057 |
| Infrastructure | 65,805 | 23,399 | --- | 89,204 |
| | <u>1,211,923</u> | <u>123,188</u> | <u>---</u> | <u>1,335,111</u> |
| Net capital assets being depreciated | <u>1,396,734</u> | <u>(14,549)</u> | <u>---</u> | <u>1,382,185</u> |
| Governmental capital assets total – net of accumulated depreciation | <u>\$ 2,700,422</u> | <u>\$ (14,549)</u> | <u>\$ ---</u> | <u>\$ 2,685,873</u> |

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE D – Capital Assets (Continued)

Capital asset activity of the City's business-type activities was as follows:

| | July 1, 2007 | Additions | Disposals | June 30, 2008 |
|--|---------------------|--------------------|---------------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 7,000 | \$ --- | \$ --- | \$ 7,000 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 272,634 | --- | --- | 272,634 |
| Other improvements | 13,647 | --- | --- | 13,647 |
| Machinery and equipment | 1,280,570 | --- | --- | 1,280,570 |
| Distribution and collection systems | 1,576,519 | 8,050 | --- | 1,584,569 |
| | <u>3,143,370</u> | <u>8,050</u> | <u>---</u> | <u>3,151,420</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 126,809 | 5,908 | --- | 132,717 |
| Improvements other than buildings | 4,037 | 341 | --- | 4,378 |
| Machinery and equipment | 830,911 | 53,611 | --- | 884,522 |
| Distribution and collection systems | 726,427 | 25,073 | --- | 751,500 |
| | <u>1,688,184</u> | <u>84,933</u> | <u>---</u> | <u>1,773,117</u> |
| Net capital assets being depreciated | <u>1,455,186</u> | <u>(76,883)</u> | <u>---</u> | <u>1,378,303</u> |
| Business-type capital assets total – net of accumulated depreciation | <u>\$ 1,462,186</u> | <u>\$ (76,883)</u> | <u>\$ ---</u> | <u>\$ 1,385,303</u> |

Capital asset activity of the City's component unit was as follows:

| | July 1, 2007 | Additions | Disposals | June 30, 2008 |
|---|-----------------|---------------|---------------|------------------|
| Capital assets being depreciated | | | | |
| Machinery and equipment | \$ 7,977 | \$ --- | \$ --- | \$ 7,977 |
| Less accumulated depreciation | | | | |
| Machinery and equipment | <u>3,855</u> | <u>798</u> | <u>---</u> | <u>4,653</u> |
| Component unit capital assets total – net of accumulated depreciation | <u>\$ 4,122</u> | <u>\$ 798</u> | <u>\$ ---</u> | <u>\$ 3,324</u> |

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE D – Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

| | |
|--------------------------------|-------------------|
| Governmental activities | <u>\$ 123,188</u> |
| Business-type activities | |
| Water | \$ 59,885 |
| Sewer | 25,048 |
| Total business-type activities | <u>\$ 84,933</u> |

NOTE E – Long-Term Debt

| | Balance at July 1, 2007 | Additions | Deductions | Balance at June 30, 2008 |
|---|----------------------------|---------------|---------------------|-----------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Note payable to a bank in the amount of \$160,063, including interest at 3.41% | \$ 66,939 | \$ --- | \$ (32,765) | \$ 34,174 |
| Capital lease payable to a finance company in the amount of \$17,495, including interest at 26.2% | 3,499 | --- | (3,499) | --- |
| Compensated absences | 79,319 | --- | (21,860) | 57,459 |
| TOTAL GOVERNMENTAL ACTIVITIES | 149,757 | --- | (58,124) | 91,633 |
| COMPONENT UNIT | | | | |
| 1991 general obligation bonds in the amount of \$1,660,000, including interest ranging from 4.8% to 5.7% | 720,000 | --- | (160,000) | 560,000 |
| TOTAL LONG-TERM DEBT | <u>\$ 869,757</u> | <u>\$ ---</u> | <u>\$ (218,124)</u> | <u>\$ 651,633</u> |

Annual debt service requirements to maturity for debt obligations are as follows:

| | Governmental Activities | | Component Unit | |
|---|-------------------------|-----------------|-------------------|------------------|
| Payments due for years ending June 30: | Principal | Interest | Principal | Interest |
| 2009 | \$ 34,174 | \$ 1,157 | \$ 155,000 | \$ 31,430 |
| 2010 | --- | --- | 180,000 | 22,905 |
| 2011 | --- | --- | 225,000 | 12,825 |
| | <u>\$ 34,174</u> | <u>\$ 1,157</u> | <u>\$ 560,000</u> | <u>\$ 67,160</u> |

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE E – Long-Term Debt (Continued)

Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note A for a description of the City's accounting policies related to these items.

NOTE F – Employee Retirement and Benefit System

Plan Description

The City has a defined benefit pension plan that covers substantially all full time employees. The plan is operated by the State of Michigan Municipal Employees' Retirement System (MERS), which is a cost-sharing-agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at: 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires City employees to contribute 4.7% of their annual compensation. The City is required to contribute the remaining amounts necessary to fund MERS, using the actuarial basis specified by statute.

Annual Pension Costs

For the year ended June 30, 2008, the City's annual pension cost of \$32,859 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal funding cost method. Significant actuarial assumptions used included a rate of return on the investment of present and future assets of 8% per year compounded annually; projected salary increases of 4.5% per year compounded annually, attributable to inflation; additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit.

During the year ended December 31, 2007, the plan experienced a decrease of \$45,538 in the net pension obligation. The combined change in net pension obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE F – Employee Retirement and Benefit System (Continued)

Three Year Trend Information- (Unaudited)

Three year trend information as of December 31, 2007 follows:

| | 2007 | 2006 | 2005 |
|---|-----------|-----------|-----------|
| Annual pension cost | \$ 25,848 | \$ 27,612 | \$ 28,020 |
| Percentage of APC contributed | 100 | 100 | 100 |
| Net pension obligation | 86,395 | 131,993 | 165,265 |
| Actuarial value of assets | 2,316,195 | 2,177,414 | 2,056,696 |
| Actuarial accrued liability | 2,402,590 | 2,309,407 | 2,221,961 |
| Unfunded AAL | 86,395 | 131,993 | 165,265 |
| Funded ratio | 96 | 94 | 93 |
| Covered payroll | 501,840 | 491,139 | 456,333 |
| UAAL as a percentage of covered payroll | 17 | 27 | 36 |

NOTE G – Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Voluntary employee contributions for the year ended June 30, 2008 were \$12,819.

NOTE H – Other Post-Employment Benefits

The City provides certain health care benefits for certain retired employees who have ten or more years of continuous City service and do not accept employment elsewhere. Such employees are entitled to paid health insurance for themselves on the basis of one paid year for every five years of continuous employment with the City. There is one former employee receiving benefits under this program. The cost of retiree health care benefits is recognized as premiums are paid, and for the year amounted to approximately \$6,100. The estimated liability for postretirement health care benefits at current costs for the individual presently receiving benefits is approximately \$6,100. Additionally, all employees, upon retirement, may continue membership in the City's health insurance plan by paying, in a timely manner, the amount of the monthly premium due, to the City, who shall pay the premium to the health insurance carrier.

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for death and disability, hospitalization and life claims, and is a member of the Michigan Municipal League Liability and Property Pool for claims relating to liability, fire, fleet and bonds. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Parchment, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE I – Risk Management

The City participates in the Michigan Municipal Workers' Compensation Fund risk pools for the purpose of its workers' compensation coverage.

The Michigan Municipal League Risk Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE J – Commitments and Contingencies

The Michigan Department of Treasury completed an audit of the City Treasurer's disbursement of the State's share of the Industrial Facilities Tax (IFT) for 1995 through 2006. The Department of Treasury has requested payment of \$317,100 from the City. In 1994 when Proposal A was enacted, the funding for school districts changed. Industrial Facilities Taxes that were previously paid directly to the school district were now to be paid to the State of Michigan on behalf of the school districts. This procedural change was missed by the City of Parchment. The City continued to make payments directly to the school district until 2003. During that time the City represented that no communication was received from the State of Michigan notifying the City that such disbursements were being made in error. Upon receipt of the State's audit findings, the City took immediate action to make the disbursements to the appropriate party. The accompanying Government-Wide Statement of Net Assets includes an account receivable from the School District for \$317,100 and amount due to State of \$317,100.

The City has not yet responded to the State's repayment request and has surpassed the State's deadline for repayment. It is the City Administration's intention to first determine both the legality and accuracy of this request for repayment before recommending a course of action to the City Commission. If this request for repayment is further determined to be required to be complied with, the City administration intends to seek indemnification from the Parchment School District for that amount, which constitutes virtually all of the amount claimed which amounts were paid directly to the School System rather than paid to the State of Michigan for the benefit of the School System. At this time, it is difficult to make an evaluation of the likely outcome and the effect, if any, on the City's finances as the City Administration is currently working with the State and Parchment Schools to determine an acceptable course of action.

REQUIRED SUPPLEMENTARY INFORMATION

City of Parchment, Michigan
Budget Comparison Schedule - General Fund
For the Year Ended June 30, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Fav (Unfav)</u> |
|--|--------------------------|--------------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Taxes | \$ 800,473 | \$ 800,473 | \$ 795,570 | \$ (4,903) |
| Licenses and permits | 19,000 | 19,000 | 22,324 | 3,324 |
| Contributions | - | - | 15,480 | 15,480 |
| Federal grants | - | - | 60,933 | 60,933 |
| State grants | 195,100 | 195,100 | 197,051 | 1,951 |
| Private grants | - | - | 38,500 | 38,500 |
| Charges for services | 93,900 | 93,900 | 110,628 | 16,728 |
| Fines and forfeitures | 14,600 | 14,600 | 9,634 | (4,966) |
| Investment income | 45,000 | 45,000 | 56,957 | 11,957 |
| Other revenue | 65,000 | 65,000 | 97,219 | 32,219 |
| Total Revenues | <u>1,233,073</u> | <u>1,233,073</u> | <u>1,404,296</u> | <u>171,223</u> |
| EXPENDITURES | | | | |
| General government | 523,987 | 523,987 | 368,691 | 155,296 |
| Public safety | 487,085 | 487,085 | 443,378 | 43,707 |
| Public works | 267,560 | 267,560 | 287,546 | (19,986) |
| Recreation and cultural | 74,173 | 74,173 | 175,673 | (101,500) |
| Capital outlay | 14,188 | 14,188 | 70,137 | (55,949) |
| Debt service | 35,100 | 35,100 | 38,567 | (3,467) |
| Total Expenditures | <u>1,402,093</u> | <u>1,402,093</u> | <u>1,383,992</u> | <u>18,101</u> |
| Excess (Deficiency) of revenues over expenditures | (169,020) | (169,020) | 20,304 | 189,324 |
| Fund balance at beginning of year | <u>870,162</u> | <u>870,162</u> | <u>870,162</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ 701,142</u> | <u>\$ 701,142</u> | <u>\$ 890,466</u> | <u>\$ 189,324</u> |

City of Parchment, Michigan
Budget Comparison Schedule - Major Street Fund
For the Year Ended June 30, 2008

| | <u>Budgeted Amounts</u> | | | <u>Variance with Final Budget Fav (Unfav)</u> |
|---|--------------------------|--------------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| REVENUES | | | | |
| State grants | \$ 100,786 | \$ 100,786 | \$ 89,501 | \$ (11,285) |
| Investment income | 8,000 | 8,000 | 12,943 | 4,943 |
| Total Revenues | <u>108,786</u> | <u>108,786</u> | <u>102,444</u> | <u>(6,342)</u> |
| EXPENDITURES | | | | |
| Routine maintenance | 12,049 | 12,049 | 3,589 | 8,460 |
| Traffic services | 7,606 | 7,606 | 12,687 | (5,081) |
| Winter maintenance | 16,993 | 16,993 | 32,276 | (15,283) |
| Administration | 9,463 | 9,463 | 3,803 | 5,660 |
| Total Expenditures | <u>46,111</u> | <u>46,111</u> | <u>52,355</u> | <u>(6,244)</u> |
| Other Financing Uses | | | | |
| Operating transfers out | <u>25,196</u> | <u>25,196</u> | <u>25,196</u> | <u>-</u> |
| Total Expenditures and Other Financing Uses | <u>71,307</u> | <u>71,307</u> | <u>77,551</u> | <u>(6,244)</u> |
| Excess of Revenues over Expenditures and Other Financing Uses | 37,479 | 37,479 | 24,893 | (12,586) |
| Fund balance at beginning of year | <u>315,257</u> | <u>315,257</u> | <u>315,257</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ 352,736</u> | <u>\$ 352,736</u> | <u>\$ 340,150</u> | <u>\$ (12,586)</u> |

City of Parchment, Michigan
Budget Comparison Schedule - Local Street Fund
For the Year Ended June 30, 2008

| | Budgeted Amounts | | Actual | Variance with Final Budget Fav (Unfav) |
|---|-------------------------|------------------|------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| State grants | \$ 36,638 | \$ 36,638 | \$ 36,525 | \$ (113) |
| Investment income | 1,500 | 1,500 | 1,167 | (333) |
| Total Revenues | 38,138 | 38,138 | 37,692 | (446) |
| Other Financing Sources | | | | |
| Operating transfers in | 25,196 | 25,196 | 25,196 | - |
| Total Revenues and Other Financing Sources | 63,334 | 63,334 | 62,888 | (446) |
| Routine maintenance | | | | |
| EXPENDITURES | | | | |
| Routine maintenance | 42,501 | 42,501 | 44,137 | (1,636) |
| Traffic services | 3,426 | 3,426 | 4,390 | (964) |
| Winter maintenance | 15,913 | 15,913 | 32,252 | (16,339) |
| Administration | 3,025 | 3,025 | 3,303 | (278) |
| Total Expenditures | 64,865 | 64,865 | 84,082 | (19,217) |
| Deficiency of Revenues Over Expenditures | (1,531) | (1,531) | (21,194) | (19,663) |
| Fund balance at beginning of year | 45,595 | 45,595 | 45,595 | - |
| Fund Balance at End of Year | \$ 44,064 | \$ 44,064 | \$ 24,401 | \$ (19,663) |

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

November 24, 2008

To the Honorable Mayor, management and Members of the City Commission
City of Parchment, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Parchment's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Payroll

During our audit it was noted that the City Clerk is responsible for processing payroll, printing and distributing payroll checks, setting up and processing direct deposit payroll transactions, and transferring funds to the payroll account. In addition, there is no review of the payroll register by someone independent of the payroll process and canceled checks are not returned with the bank statement.

Management Response

This process was modified recently to include such review checkpoints. The City Clerk is continuing to complete all processing, printing and distributing of payroll checks. The City Treasurer is a co-signer of all payroll checks and the City Manager serves as an independent reviewer of the payroll register. Electronic versions of cancelled checks are available to the City for a period of one year. Copies of checks may be requested and received within two days.

Segregation of Duties – Disbursements/Transfers

The City Treasurer has access to check stock, is an authorized check signer, has the ability to print checks, oversees the bank reconciliation process, records transactions and adjustments in the general ledger and is responsible for all investment account transfers.

The City Manager does not document his review of invoices as he signs checks, his review of unopened bank statements or his review of the bank reconciliations.

Beginning in February 2008 “on-line” images of cancelled checks were made available to City personnel, however these images are not available “on-line” after one year passes and there is no procedure in place to permanently copy or maintain access to these check images. Prior to February copies of canceled checks were only available if specifically requested from the bank.

Disbursements for tax collections made to other governmental entities were not specifically approved by the City Council. All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the charter.

Management Response:

Inherent in a small office are difficulties with segregation of Duties. All city checks require two signatures. The City Manager reviews accounts payable checks before they are disbursed and notes his review on a copy of the warrant. The City Manager also reviews monthly, a sampling of accounts payable and payroll checks. Check images are available on line for up to 7 years. The City Treasurer prints out copies of checks over \$15,000 on a quarterly basis. Tax disbursements have not been routinely approved by the City Commission. These are funds collected on behalf of other taxing jurisdictions. Tax collections are disbursed according to an Agreement Establishing Alternative Schedule For Delivery of Tax Collections. Section 43 of the General Property Tax Law provides for this agreement. This agreement states that taxes will be paid weekly on each Thursday, not allowing for City Commission approval before disbursement.

Segregation of Duties – Accounts Receivable/Receipts

The accounts receivable and cash receipts recording system is not integrated with the City’s general ledger package. The current system requires manual summary journal entries be made to the general ledger to record accounts receivable transactions. Integrating accounting packages reduces the risk of errors occurring.

We noted that one employee is responsible for mailing customer invoices (utility bills), receiving and recording cash receipts and customer payments, applying receipts to customer ledgers and adjusting customer accounts receivable balances. We believe access to cash and checks should be segregated from the responsibility for recording and adjusting accounting records.

Management Response

Cash receipts are taken at the front counter and entered into a cash register. The register is balanced at the end of each day. Utility receipts are entered into the utility billing system and reconciled to the cash register. Tax receipts are entered into the tax program and reconciled to the cash register. Miscellaneous receipts are recorded in a receipt book and then recorded in the general ledger. Each of these posting processes are done by a different person, giving the City as much segregation as possible. The utility billing clerk no longer has authority to write off account balances (per City Manager). The Auditor would prefer the City acquire add-on software modules that integrates cash receipts automatically with the general ledger. This has been researched by staff and quotes solicited from Fund Balance, the City’s financial software vendor; however the cost is unjustifiable at this time.

Month-End Closing Procedures

As a result of our audit, more than 30 adjusting journal entries were proposed, the effect of which was to increase net assets by approximately \$307,000. Substantially all of the entries proposed were to correct bookkeeping errors or to make required accruals and other adjustments that we believe should have been recorded by management in a timely matter. We believe that a review and evaluation of transactions and proper month-end closing procedures (including reconciliations) would significantly increase the accuracy and timeliness of monthly financial information.

Management Response

This is true, however most adjustments were identified and corrected by management as certain portions of the City's books were prepared for the audit simultaneously with the auditor's initial work in an effort to expedite the audit process. In the future, the audit will not start until management has had time to completely review and evaluate transactions, thus eliminating adjusting entries after the audit has begun.

Kindleberger Summer Festival of the Performing Arts

The Kindleberger Summer Festival of the Performing Arts accounting records are not maintained as part of the City's general ledger and there is not adequate segregation of accounting responsibilities. The City Clerk is responsible for authorizing invoices, processing and signing checks, receiving and recording receipts, making deposits, maintaining accounting records, and reconciling bank accounts. Additionally, since the Festival is organized under the auspices of the City, disbursements should be authorized and a budget should be approved by the City Commission.

Management Response

As the KSFPA was organized as a City Board in late 2007, integration of the group's finances did not occur until FY 2008. The City Treasurer and City Clerk now process and track such expenses as is done with other City funds.

Distribution of Tax Revenues Collected for Another Taxing Unit

The Michigan Department of Treasury completed an audit of the City Treasurer's disbursement of the State's share of the Industrial Facilities Tax (IFT) for 1995 through 2006. As a result of the audit, the Department of Treasury has assessed the City \$317,100. The assessment is related to the IFT collected by the City which was remitted to the Parchment School District rather than the State of Michigan as required under a 1994 law change (Proposal A).

In 1994 when Proposal A was enacted, the funding for school districts changed. Property taxes, including, industrial facilities taxes that were previously paid directly to the school district were required to be paid to the State. The State would then reimburse school districts based on a "per pupil" headcount. The City of Parchment continued to pay the IFT to the school district rather than the State. This resulted in the school district receiving the funds two times, once from the City and the other from the State of Michigan.

The City has requested reimbursement from the Parchment School District and has not yet responded to the State's repayment request. The 2008 financial statements reflect an account receivable from the school district and an account payable to the State.

Management Response

The City Administration continues to work with Parchment School representatives and the State of Michigan on this matter (please see Note J, page 35).

This communication is intended solely for the information and use of management, and Members of the City Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

The City of Parchment's written responses to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion them.

Very Truly Yours,

A handwritten signature in cursive script that reads "Seber Tans, PLC".

Seber Tans, PLC